

CCAMTAC Regional Research/Analytical Economic Policy Series

Currency Depreciations and Savings Behavior: Evidence from Household Deposits in Armenia

Thursday, July 22, 2021

Introduction and Moderator:

Norbert Funke, Director CCAMTAC

Mehdi Raissi, Incoming IMF Resident Representative to Armenia

Presenter:

Aleksandr Shirkhanyan, Head of Financial Stability Research Division, Central Bank of Armenia

Discussant:

Tigran Poghosyan, IMF Resident Representative to Kyrgyz Republic

The new Research Seminar series of the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center aims at promoting analytical work and knowledge exchange in the region. In his opening remarks, Norbert Funke explained that presentations could potentially address a broad range of macro-critical economic policy issues, with a focus on papers related to countries in the region, which are not yet published.

Putting the first seminar in perspective, the moderator, Mehdi Raissi, suggested that the paper would focus on an important topic for the region, on issues related to dollarization, savings, and currency depreciation. A problem that households in the developing world often face is how to safely store their assets when the value of their local currency is volatile and is prone to depreciation during bad times, which in turn has important implications for dollarization and economic policy. In the paper Aleksandr Shirkhanyan (Central Bank of Armenia, co-authors: Diego Jimenez-Hernandez and Joshua J. Kim (both Stanford University)) analyzed how households make such savings decisions following a large currency depreciation in Armenia. The paper exploits the unique structure of Armenian financial instruments, which generates quasi-random variation in which savers are nudged into paying attention to the depreciation. Using differences-in-differences estimation techniques, the authors find that drawing explicitly the attention to the risk of currency depreciations changes the behavior of customers. Individuals, who received a nudge to pay attention to the currency depreciation significantly reduced their total savings, held their savings for shorter periods of time, and chose to save their assets in USD. However, much of the differences in savings decisions are of a temporary nature, up to about 2 years.

In commenting on the paper, Tigran Poghosyan, highlighted the importance of the topic for the region and that the authors successfully addressed a macro-relevant topic with difficult to get, not publicly available micro data. He also made a number of suggestions and proposals for future work, including extending the paper to incorporate policy implications, adding information on the drivers of higher dollarization, analyzing the reaction of commercial banks to foreign exchange depreciations, and assessing the impact on inflation expectations.

A lively discussion followed with questions related to (i) the control of valuation effects in the definition of dollarization; (ii) the number of saving and non-saving households in Armenia; (iii) the relative importance of savings and remittances; and (iv) the impact of Central Bank's communication on interventions in the foreign exchange market on savings behavior

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